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SUBJECT: LATEST AVIATION DEVELOPMENTS IN AUSTRIA

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Summary

1. New non-stop services from Austria to the U.S. include a Delta Airlines Atlanta-Vienna flight and an Austrian Airline's (AUA) Vienna-Chicago flight. AUA has increased the frequency of its Vienna-Erbil, Iraq flights, and added new destinations, such as Astana, Kazakhstan. AUA's has intensified its cooperation with the Russian airline alliance AiRUnion, as well as with its Star Alliance partner Air China. Following a Euro 130 million loss in 2006, AUA recently announced a much lower than expected loss of Euro 8.6 million in the first half of 2007. AUA expects to turn a profit by 2009. As part of its long haul fleet restructuring, AUA has acquired a fourth Boeing 777-200. Vienna International Airport remained the number one departure and transfer airport for Central and Eastern Europe and Southeastern Europe in 2006. The debate in Austria about a fuel tax remains dormant following an initial spurt of support from prominent politicians earlier in 2007. End Summary.

New Non-Stop Services to the U.S.

2. After an interruption of seven years, Delta Airlines has added Vienna to its flight destinations. Beginning on May 22, Delta began operating five non-stop flights between Atlanta and Vienna per week, using Boeing 767-300 aircraft. Vienna's hub function for connecting flights to Central and Eastern Europe and Southeastern Europe (CEE/SEE) was an important reason to take up the Vienna route, according to Gail Grimmett, Delta's Vice President for Revenue Management. On May 29, Austrian Airlines (AUA) started non-stop service between Vienna and Chicago six times a week. Chicago is AUA's third U.S. destination in addition to Washington and New York.

AUA - New Destinations and Cooperations

3. AUA recently increased the frequency of its Vienna-Erbil, Iraq flights from three to four weekly flights. On May 15, AUA started regular service three times a week to Bourgas, Bulgaria's largest port on the Black Sea. Starting August 3, AUA will initiate service to Astana, Kazakhstan three times a week. As of October 31, AUA plans to restart its service to Colombo, Sri Lanka and Male, Maldives, two destinations that the company stopped serving in early 2007.

14. In February 2007, AUA started cooperation with AiRUnion, an alliance of several Russian carriers: Kras Air, Omskavia, Samara Airlines, Domodedovo Airlines and Sibaviatrans. AUA considers AiRUnion's extensive route network, stretching from Moscow to Central Asia and the Pacific, as an ideal supplement to its current flights to Moscow, St. Petersburg, Yekaterinburg, Rostov on the Don, and Krasnodar. As a result of this alliance, AUA, after 48 years at Moscow's Sheremetyevo Airport, has switched to Moscow's Domodedovo Airport. According to AUA, Domodedovo will function as a hub for passengers transferring onward via AiRUnion's route network in the east.

15. On July 2, AUA announced it will increase cooperation with Star Alliance partner Air China by adding Shanghai, Guangzhou and Wuhan as new code share destinations via AUA's daily Beijing flight.

AUA Not Yet on Safe Ground - Profit in 2009?

16. On July 23, AUA announced that losses for the first half of 2007 had been much lower than expected at Euro 8.6 million, compared to losses of Euro 61 million in 2006. Nevertheless, AUA CEO Alfred Oetsch recently dampened hopes for a swift turnaround, indicating that 2007 will be a transition year. He added that cost-cutting measures, which AUA implemented in 2006, would first show benefits in 2008. According to Oetsch, AUA expects to make a profit and pay a dividend in 2009.

17. In 2006, AUA's operating results improved, but were still negative. Debt sunk from Euro 1.1 billion to Euro 716 million. AUA's debt-to-equity ratio improved from 191.6% to 91.2% due to the November 2006 capital increase (ref A). However, at Euro 130

VIENNA 00002003 002 OF 002

million, AUA's loss in 2006 was on par with its 2005 loss. AUA's decision not to hedge against rising fuel prices accounted for additional costs of Euro 76 million in 2006. In 2007, AUA began hedging against rising fuel costs.

AUA Puts New Boeing 777-200 Into Operation

18. On June 5, AUA began operating with its new Boeing 777-200, "Spirit of Austria." "Spirit of Austria" is AUA's fourth 777-200 and will operate on flights to Washington, Delhi, Bangkok and Tokyo. Acquisition of the Boeing 777-200s is part of AUA's move towards purchasing only Boeing aircraft for its long haul fleet. AUA has already sold its four Airbus A330s and leased out its two Airbus A340-300s (ref A).

Vienna International Airport - Number One CEE/SEE Hub

19. In 2006, Vienna International Airport (VIE) maintained its position as the dominant departure and transfer airport for CEE/SEE, offering 45 destinations in the region. Moscow was the most traveled CEE destination with 114,000 passengers from Vienna in 2006. VIE continues to seek expansion opportunities internationally: VIE holds 50% in Malta International Airport (directly and through a consortium); 66% in Kosice Airport, Slovakia's second largest airport; and 25.2% in Friedrichshafen airport, Germany's fourth largest regional airport. VIE's efforts to obtain shares in the Bratislava Airport failed in 2006, when the new Slovak Government stopped the airport's privatization. VIE was also unsuccessful in its attempt to obtain the Antalya airport in Turkey. VIE has announced it would be interested in a share of Prague's Ruzyně airport, when the Czech Government privatizes the airport.

Austria's Debate on Airline Fuel Tax Dormant

¶10. The debate in Austria about imposing a tax on jet fuel has been rather mute in recent months, following a flurry of positive comments earlier in 2007 from prominent politicians, including Chancellor Alfred Gusenbauer and Vice-Chancellor and Finance Minister Wilhelm Molterer. Likewise, there has been no follow-up discussion to the March 8-9 European Council conclusions, which called for including aviation emissions in the EU's Emissions Trading Scheme. Austria strongly supports inclusion of aviation emissions in the ETS.

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